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# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## HealthMarkets Insurance Company

December 31, 2008

### Introduction

This discussion provides an assessment by management of the current financial condition, results of operations, cash flow and liquidity, and change in financial condition for HealthMarkets Insurance Company (the "Company") of North Richland Hills, Texas for 2008. Information presented in this discussion supplements the financial statements, exhibits and schedules in the 2008 annual statement.

### Overview

HealthMarkets conducts its insurance businesses through its indirect wholly owned insurance company subsidiaries, The MEGA Life and Health Insurance Company ("MEGA"), Mid-West National Life Insurance Company of Tennessee ("Mid-West") and The Chesapeake Life Insurance Company ("Chesapeake"). MEGA is an insurance company domiciled in Oklahoma and is licensed to issue health, life and annuity insurance policies in the District of Columbia and all states except New York. Mid-West is an insurance company domiciled in Texas and is licensed to issue health, life and annuity insurance policies in Puerto Rico, the District of Columbia and all states except Maine, New Hampshire, New York, and Vermont. Chesapeake is an insurance company domiciled in Oklahoma and is licensed to issue health and life insurance policies in the District of Columbia and all states except New Jersey, New York and Vermont. Effective December 1, 2007, the Company acquired all of the outstanding capital stock of Fidelity Life Insurance Company, an insurance company domiciled in Pennsylvania and licensed to issue health and life insurance policies. On May 12, 2008, Fidelity Life Insurance Company was redomesticated to Oklahoma. Effective July 15, 2008, the Company changed the name of Fidelity Life Insurance Company to HealthMarkets Insurance Company.

The Company is a stock insurance company licensed in 48 states and the District of Columbia engaged primarily in the life, annuity and accident and health business.

### Results of Operations

The Company has been an inactive shell whose primary assets consist mainly of cash and investments in U.S. Treasuries. The Company does not have any premium or corresponding claim activity.

The Company reported a net loss from operations before federal income taxes of \$(482,000) for 2008 compared to a net gain of \$266,000 in 2007.

### Prospective Information

The company is not aware of any event that will have a material adverse effect upon its financial position or results of operations.

### Material Changes

The Company is not aware of any material changes.

### Liquidity, Asset/Liability Matching and Capital Resources

The primary source of funds in 2008 and 2007 were from investment income earned in the amount of \$395,000 and \$453,000, respectively. The uses of funds were for administrative expenses and for insurance taxes, licenses and fees.

### Loss Reserves

This is not applicable. The Company is not a Property & Casualty Company.

### Off-Balance Sheet Arrangements

The Company does not have any Off-Balance Sheet Arrangements.

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### **Participation in High Yield Financings, highly Leveraged Transactions or Non-investment Grade Loans and Investments**

The Company currently invests in US treasuries and money market investments only since its acquisition.

### **Preliminary Merger/Acquisition Negotiations**

The Company is not currently involved in any preliminary merger and/or acquisition negotiations.

### **Conclusions**

Under the risk-based capital initiatives adopted in 1992 by the NAIC, insurance companies must calculate and report information under a risk-based capital formula. At December 31, 2008, the risk-based capital ratio of each of our insurance subsidiaries exceeded the ratio for which regulatory corrective action would be required.